HOUSING MARKET OUTLOOK
Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2013

Highlights

- Rising inventory will slow the pace of housing starts in 2014
- Existing home sales will edge higher in 2014, price growth to moderate
- Rental demand to remain stable with vacancies below three per cent
- Net migration to edge lower but remain elevated through 2014

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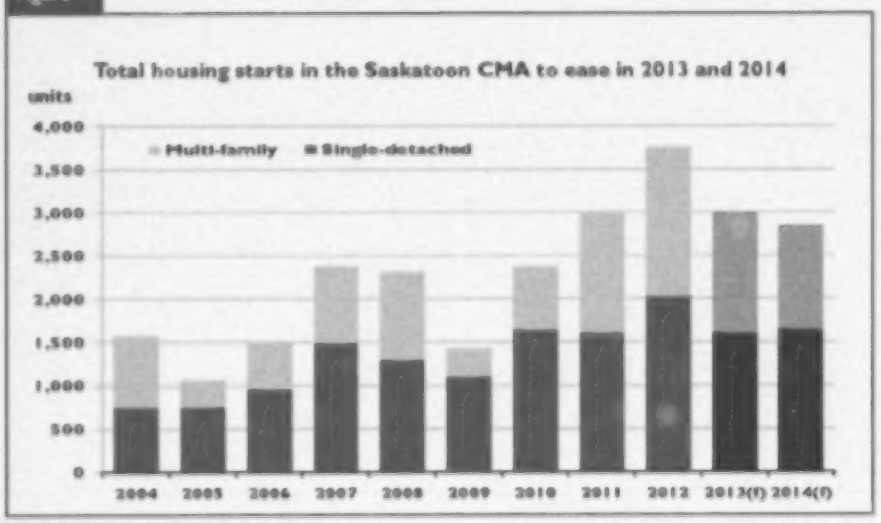

Source: CMHC, CMHC Forecast (f)

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[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 16, 2013.

New Home Market: Elevated Supply Levels will Inhibit Starts in 2014

Total housing starts in the Saskatoon Census Metropolitan Area (CMA) are on pace to reach 3,200 units in 2013, down 15 per cent from a year ago. Elevated supply levels will be a limiting factor to higher construction leading into 2014, as will be a reduction in net migration from the record high of 2012. With the risk of further additions to inventory, local builders will be reluctant to quicken the pace and add new projects leading into next year. Consequently, housing starts are expected to moderate further to 3,050 units in 2014. Despite the reduction, housing starts in Saskatoon over the forecast period will be among the highest since 1982. Demand for new homes will be supported by continued employment growth, low mortgage rates, and elevated net migration.

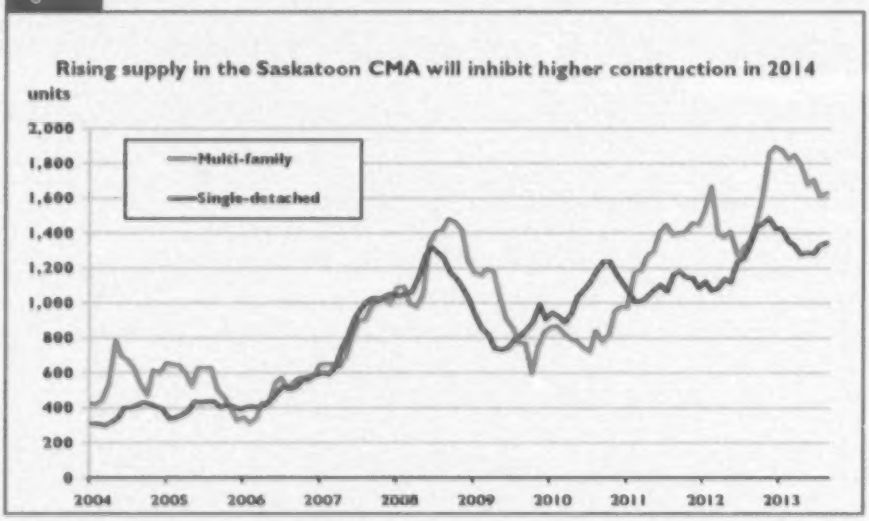
Single-detached starts are forecast to moderate 21 per cent to 1,600 units in 2013 in response to lower net migration and rising inventory. Expect a slight rise to 1,650 units in 2014 as supply and demand become more balanced. Despite the moderation from 2012's record, single-detached starts will remain elevated by historical standards, buoyed by favourable economic and demographic factors. A total of 1,082 single-detached homes were initiated to the end of August 2013, 16 per cent fewer than in the corresponding period one year prior. With fewer starts this year, the under construction count in August was down eight per cent year-over-year. Nevertheless, absorptions still lag completions and the inventory of complete and unabsorbed units was 95 per cent higher in August than during the same month in 2012. This will be a constraint on higher construction going forward. On the other hand, with fewer starts in 2013 and increased production capacity, contractor selling prices, measured by Statistics Canada's New House Price Index (NHPI), will rise by only a few percentage points this year and next. Meanwhile, the average absorbed price for a single-detached home in Saskatoon is projected to rise to $427,000 in 2013 and to $437,000 in 2014.

Saskatoon's multi-family starts, which consist of semi-detached, row, and apartment units, are on pace to moderate 7.4 per cent to 1,600 units in 2013. Rising inventories and competition from a well supplied resale market continue to inhibit growth in starts this year. From January to August, Saskatoon builders initiated 671 multi-family units, down 17 per cent from a year earlier. Despite this reduction, the under construction count was still 16 per cent higher in August than during the same month in 2012. Meanwhile, absorptions have continued to lag completions this year, resulting in a 58 per cent year-over-year increase in the number of complete and unabsorbed units in August. With inventory on the rise, local builders will be reluctant to increase the number of new projects going forward. Consequently, we expect a total of 1,400 multi-family units to be initiated in 2014.

Existing Home Market: MLS® Sales to Rise Moderately Next Year

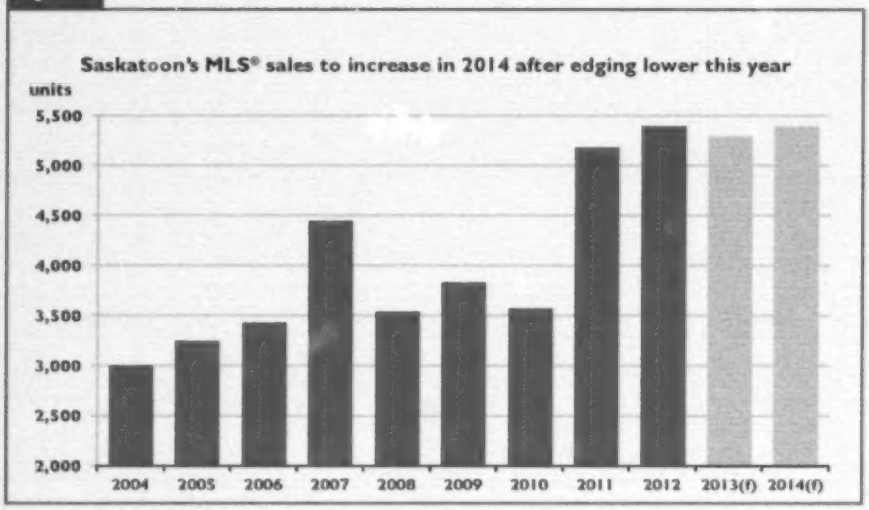
After a slow start to the year, Saskatoon's resale market has trended higher in recent months. However, annual sales will come in slightly lower than the record 5,398 transactions achieved in 2012. Despite support from a strong labour market and low mortgage rates, demand for existing homes in Saskatoon has moderated in 2013 due to lower net migration, resale price gains, and higher monthly carrying costs. While sales to the end of August virtually were on par with levels from a year ago, we expect existing home sales to total 5,300

Figure 2



Source: CMHC

Figure 3



Source: CREA, CMHC Forecast (f)

units in 2013. Next year, a slightly higher level of 5,400 sales is projected, supported by continued job growth and elevated net migration to the region.

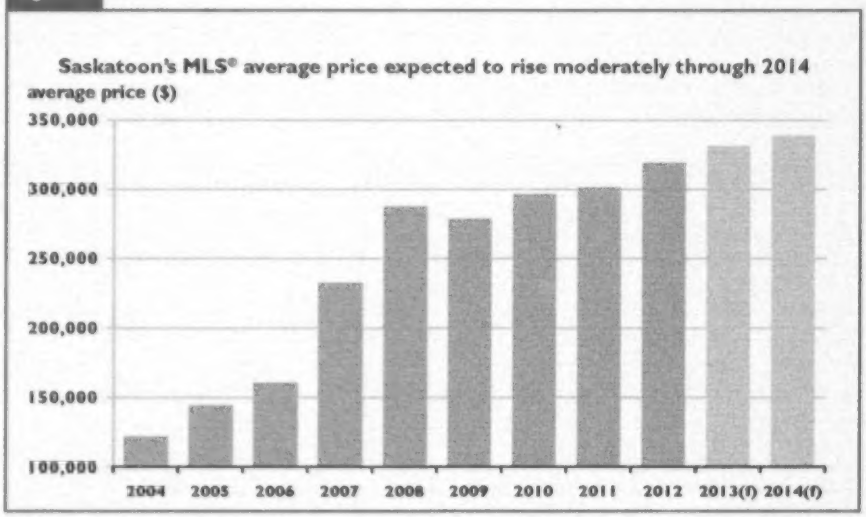
Demand and supply conditions in Saskatoon's resale market are expected to remain balanced over the forecast period. Recent gains in the average resale price have led to an increase in active listings. Active listings in August numbered 2,776 units, 18 per cent higher than during the same month a year ago. With a wider selection of resale homes to choose from, the sales-to-active listings ratio was at 18.2 per cent in August, down from 20.8 per cent in August 2012. Given this, the average time to sell a home has increased this year. It took an average of 44 days for a home to sell on the MLS® in August, compared to 42 in August of 2012.

Under these conditions, resale price growth is moderating. The average MLS® resale price in Saskatoon is forecast to reach $331,500 in 2013 and $339,000 in 2014. At 3.8 and 2.3 per cent, respectively, these gains are considerably lower than the 6.1 per cent increase in average price last year. Thus far in 2013, upward pressure on Saskatoon's average resale price has been supported by a shift in the composition of sales to higher priced properties. During the first eight months of 2013, the share of homes selling at $450,000 and above rose to 15 per cent, compared to 12.5 per cent in the corresponding period of 2012. Moving forward, we expect rising carrying costs and weaker equity gains to slow the shift towards higher priced homes. These factors will lead to a moderate increase in the average resale price next year.

Rental Market: Modest Increases in Vacancies and Rents Through 2014

Demand for purpose-built rental apartments in Saskatoon is projected to remain relatively stable over the next two years. The apartment vacancy rate is expected to rise slightly to 2.8 per cent in 2013 and to 2.9 per cent in 2014. Employment opportunities and rising wages will continue to draw migrants to the region and support rental demand, particularly from international sources that have a high propensity to rent upon their arrival. On the supply side, additions to the rental universe via new construction will offer additional supply for renters. In the 12-month period ending August 2013,

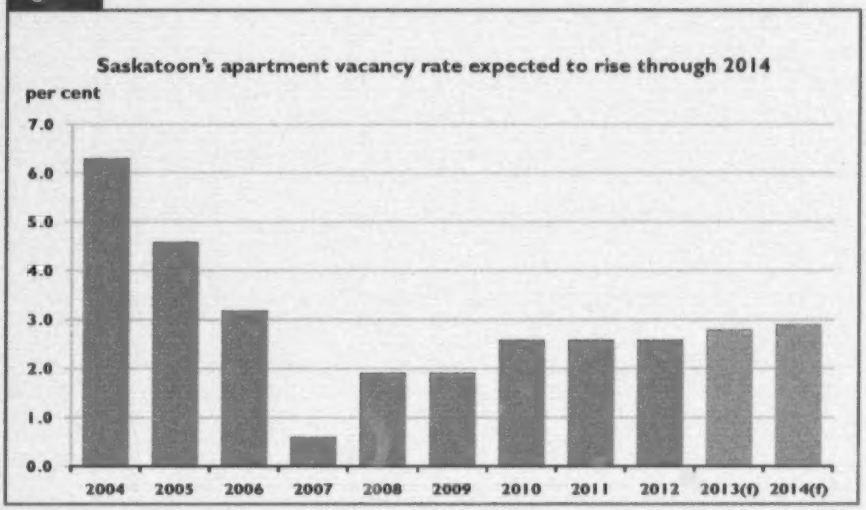
Figure 4



Source: CREA, CMHC Forecast (f)

'Multiple Listing Service ®' (MLS ®) is a registered trademark owned by the Canadian Real Estate Association.

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

completions for rental tenure totalled 270 units. In addition, continued competition from the secondary rental market will help alleviate the downward pressure on vacancies. CMHC's October 2012 Rental Market Survey revealed that 21 per cent of condominium apartment units were investor-owned and rented, rather than owner-occupied.

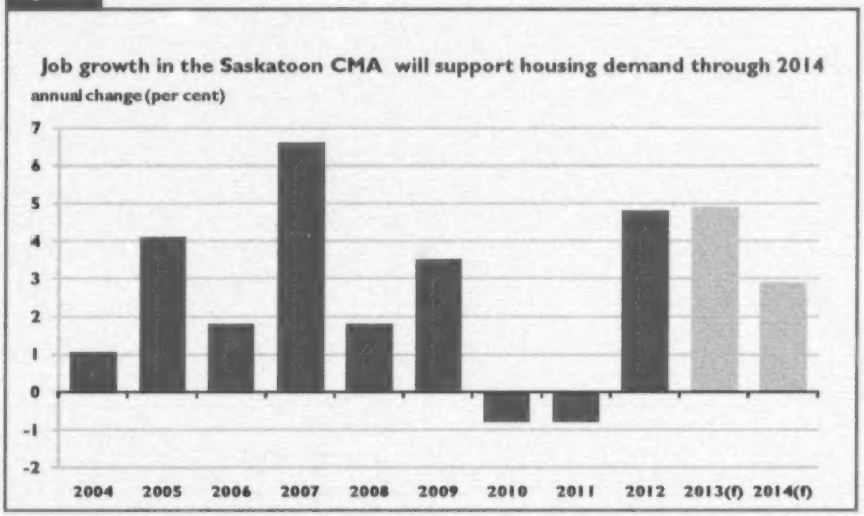
While demand for rental units in Saskatoon will remain strong over the forecast period, the gradual increase in vacancies will moderate the incentive for landlords to raise rents. Consequently, the average monthly rent for a two-bedroom apartment is forecast to increase to $1,040 in the October 2013 survey, compared to $1,002 during last October. In 2014, additions of new rental units at higher price points will further push up the average monthly rent for a two-bedroom apartment in the Saskatoon CMA to $1,065.

Economic Trends: Strong Job Growth, But Net Migration to Edge Lower

Saskatoon's labour market is forecast to grow at a faster pace than most major urban cities in Canada this year and next. Average employment growth in the Saskatoon CMA is projected at 4.9 per cent in 2013 and 2.9 per cent in 2014, while the unemployment rate is expected to average 4.3 per cent throughout the forecast period. To the end of August 2013, a total of 10,600 jobs were created, compared to 5,300 in the same period one year prior. The jobs created represented a net addition of 12,000 full-time positions, which more than offset a net loss of 1,400 part-time positions. With employment growth outpacing the increase in the labour force, Saskatoon's unemployment rate averaged 4.3 per cent in August, down from 5.8 per cent in August 2012. In the face of strong full-time job growth and a declining unemployment rate, average weekly earnings in Saskatoon to the end of August reached $942, up 9.6 per cent from a year ago. With a high labour participation rate of 74 per cent in August, Saskatoon will continue to face tight labour market conditions moving into next year.

Saskatoon's strong job growth, employment opportunities, and rising wages will continue to draw migrants to the region throughout the forecast period. In 2012, Saskatoon received a record 9,382 net migrants from

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

international sources and other parts of Canada. Moving forward, improving economies outside of Saskatchewan, particularly in Alberta, will reduce the province's magnetic draw for migrants. As a result, net migration to the Saskatoon CMA is forecast to moderate to 6,800 people in 2013 and to 6,100 in 2014. Despite the moderation, net migration to Saskatoon will remain a large contributor to population growth, new household formation, and housing demand throughout the forecast period.

Mortgage Rate Outlook

Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates.[3]

CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.

By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

[3] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting," Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards.
Employment	Substantial full-time job creation has more than offset a net loss in part-time positions, which will support demand for newly constructed homes, moving forward.
Income	Average weekly earnings are rising rapidly and will continue to support housing demand in the new home market.
Population	A lower level of net migration to Saskatoon in 2013 will reduce demand for housing compared to last year, albeit modestly.
Resale Market	Higher active listings and modest resale price growth will provide increased competition to the new home market.
New Home Inventory	A rising inventory of complete and unabsorbed units will moderate the pace of new home construction this year and next.

Forecast Risks

This outlook is subject to some risks, including:

- A stronger than expected U.S. economic expansion or stronger growth in emerging countries could lead to higher global commodity prices, which would positively impact the Saskatchewan economy. This would lead to stronger economic growth and housing activity in the region than is currently forecast.
- Should the inventory of new units climb inordinately, local builders would likely delay or reduce the size of some construction projects. Consequently, this would lead to a greater moderation in the number of housing starts than is currently forecast.
- A slower than expected pace of employment growth in Saskatoon next year would reduce net migration further than has been forecast and negatively impact housing demand.

Forecast Summary Saskatoon CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,638	1,608	2,025	1,600	-21.0	1,650	3.1
Multiples	743	1,386	1,728	1,600	-7.4	1,400	-12.5
Starts - Total	2,381	2,994	3,753	3,200	-14.7	3,050	-4.7
Average Price ($):							
Single-Detached	380,600	389,580	408,491	427,000	4.5	437,000	2.3
Median Price ($):							
Single-Detached	359,239	360,000	370,000	390,000	5.4	395,000	1.3
New Housing Price Index (% chg.)	2.8	1.4	2.3	1.7	-	1.5	-
Resale Market							
MLS® Sales	3,574	5,164	5,398	5,300	-1.8	5,400	1.9
MLS® New Listings	6,756	10,284	10,217	11,000	7.7	11,100	0.9
MLS® Active Listings	2,052	2,154	2,197	2,300	4.7	2,325	1.1
MLS® Average Price ($)	296,293	301,232	319,469	331,500	3.8	339,000	2.3
Rental Market							
October Vacancy Rate (%)	2.6	2.6	2.6	2.8	-	2.9	-
Two-bedroom Average Rent (October) ($)	934	966	1,002	1,040	-	1,065	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	145,900	144,700	151,500	158,923	4.9	163,532	2.9
Employment Growth (%)	-0.7	-0.8	4.7	4.9	-	2.9	-
Unemployment rate (%)	5.4	5.6	5.6	4.3	-	4.3	-
Net Migration [1]	5,278	5,844	9,382	6,800	-27.5	6,100	-10.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 16, 2013.

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DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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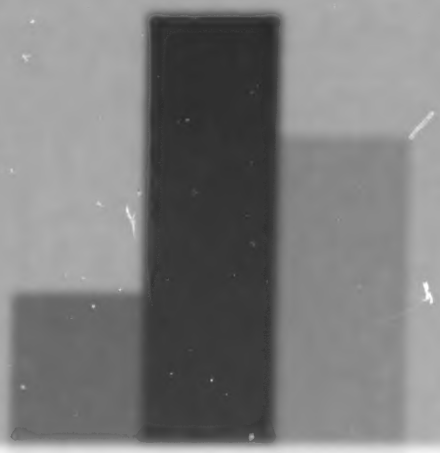

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